

Captives



Presented by: John Charpie & Travis Bennett

What is a captive?

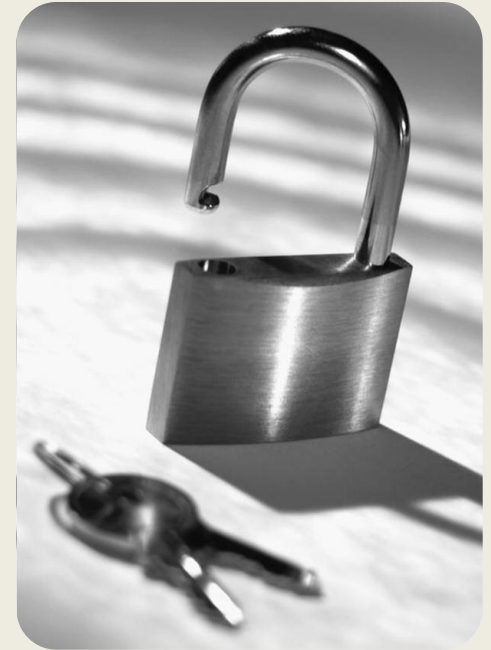


An *insurance* company
that is *owned* and operated by its members
for the *benefit* of those members...

Captive Solution



- Captives are targeted to deliver:
- Control
- Stability
- Greater protection from the impact of adverse market conditions
- Ability to retain underwriting profit and investment income



Captive Domiciles

• Onshore Domiciles

- Vermont (572)
- Utah (188)
- Hawaii (168)
- South Carolina (160)
- Washington D.C. (139)
- Kentucky (127)
- Nevada (124)
- Arizona (96)
- Delaware (95)
- Montana (67)
- New York (47)

• Offshore Domiciles

- Bermuda (845)
- Cayman Islands (738)
- Guernsey (341)
- Anguilla (252)
- Luxembourg (244)
- Barbados (242)
- British Virgin Islands (219)
- Turks & Caicos (211)
- Isle of Man (143)
- Nevis (108)
- Dublin (82)

Traditional Insurance



Insured

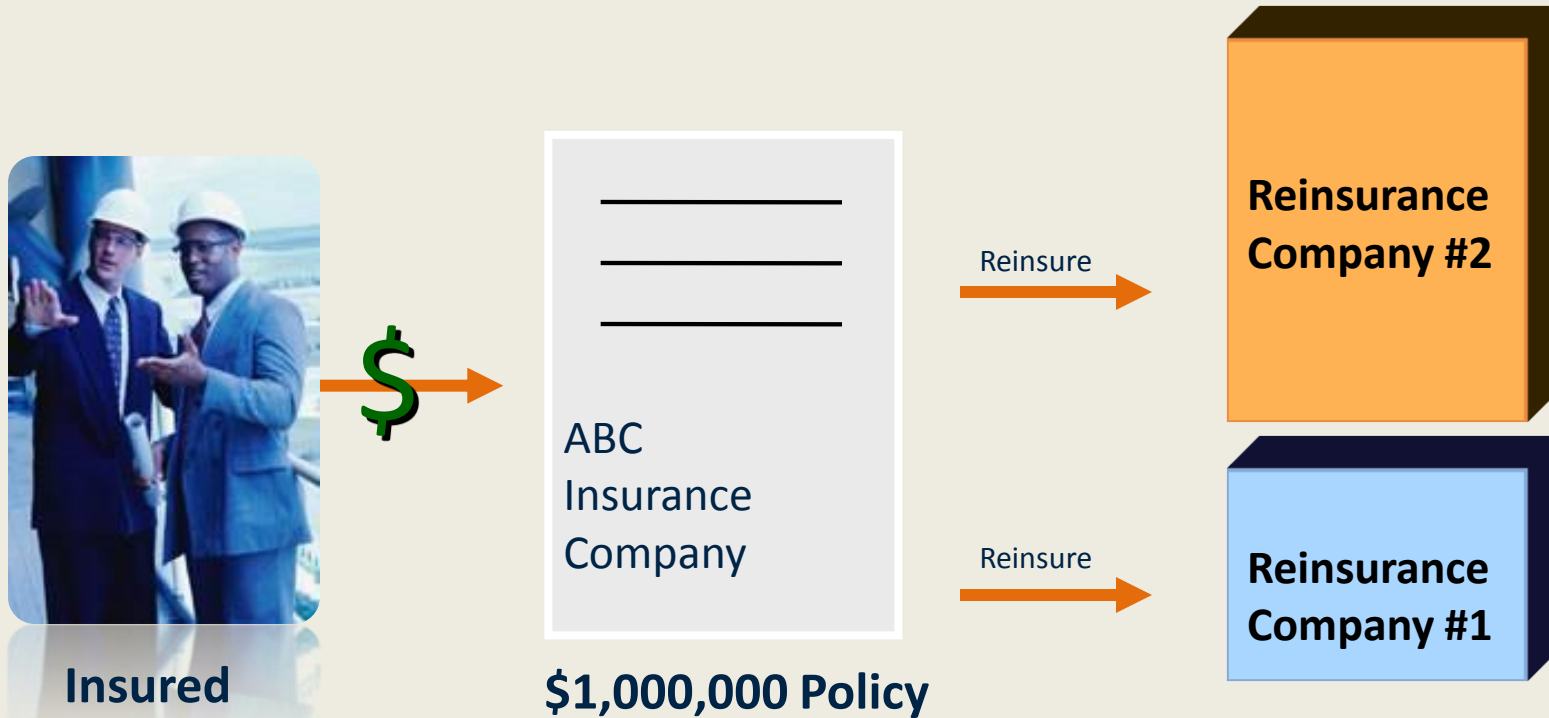


ABC
Insurance
Company

\$1,000,000 Policy

- Takes control of handling claims
- Keeps all profits from unused premiums
- Keeps Investment Income
- Determines rating structure

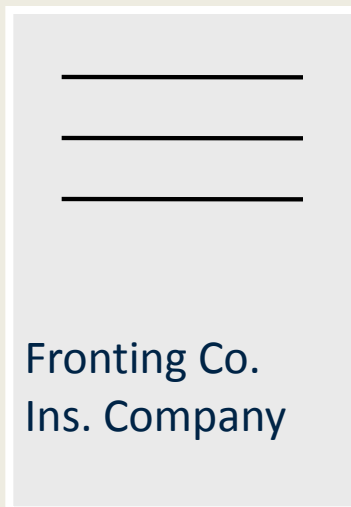
Traditional Insurance



Captive Insurance



Insured



Fronting Co.
Ins. Company

\$1,000,000 Policy

Reinsure


Reinsure




**Reinsurance
Company**
>\$500,000 <



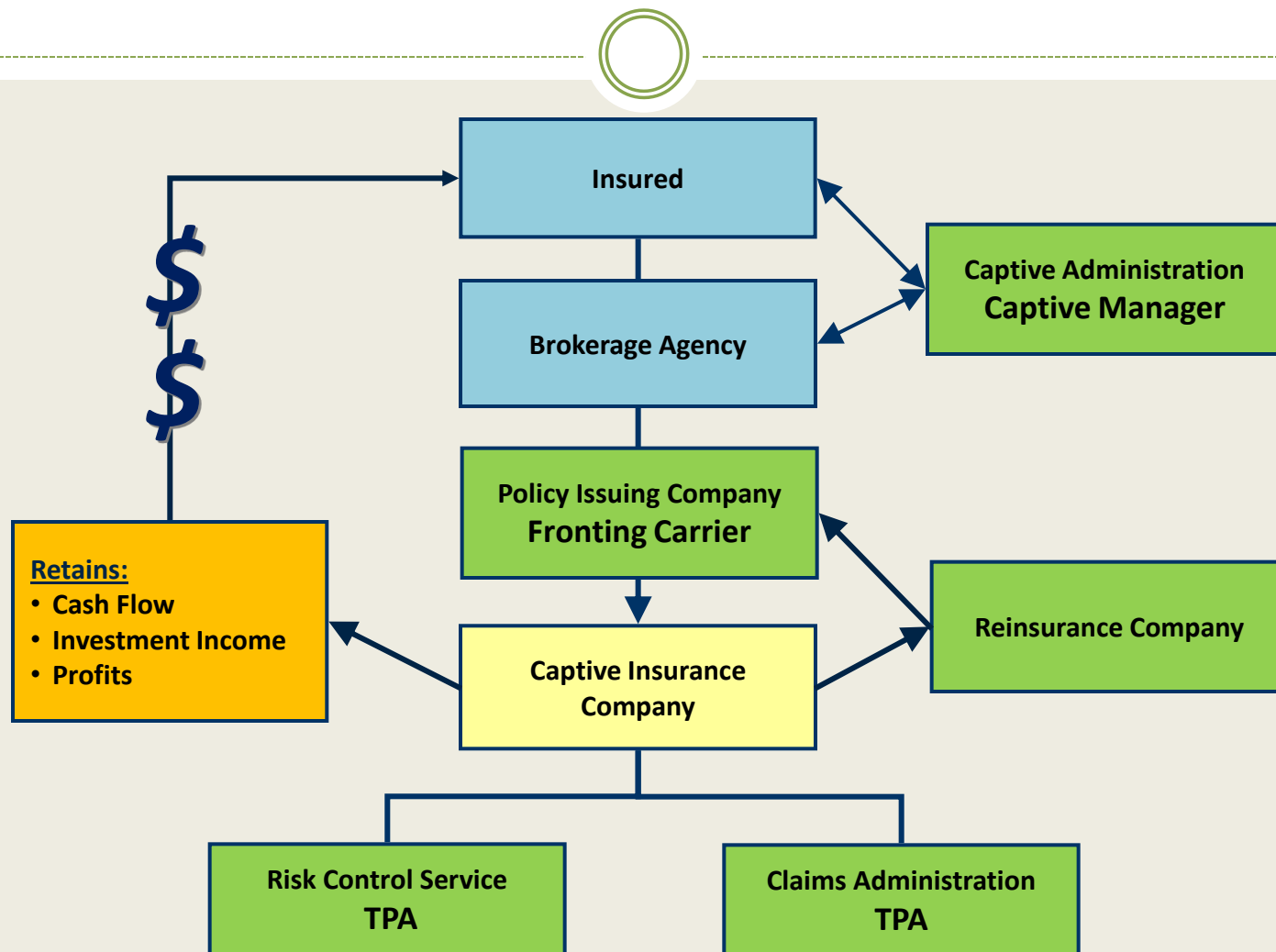
**Typical
Captive**
>\$500,000<

Total Insurance Program

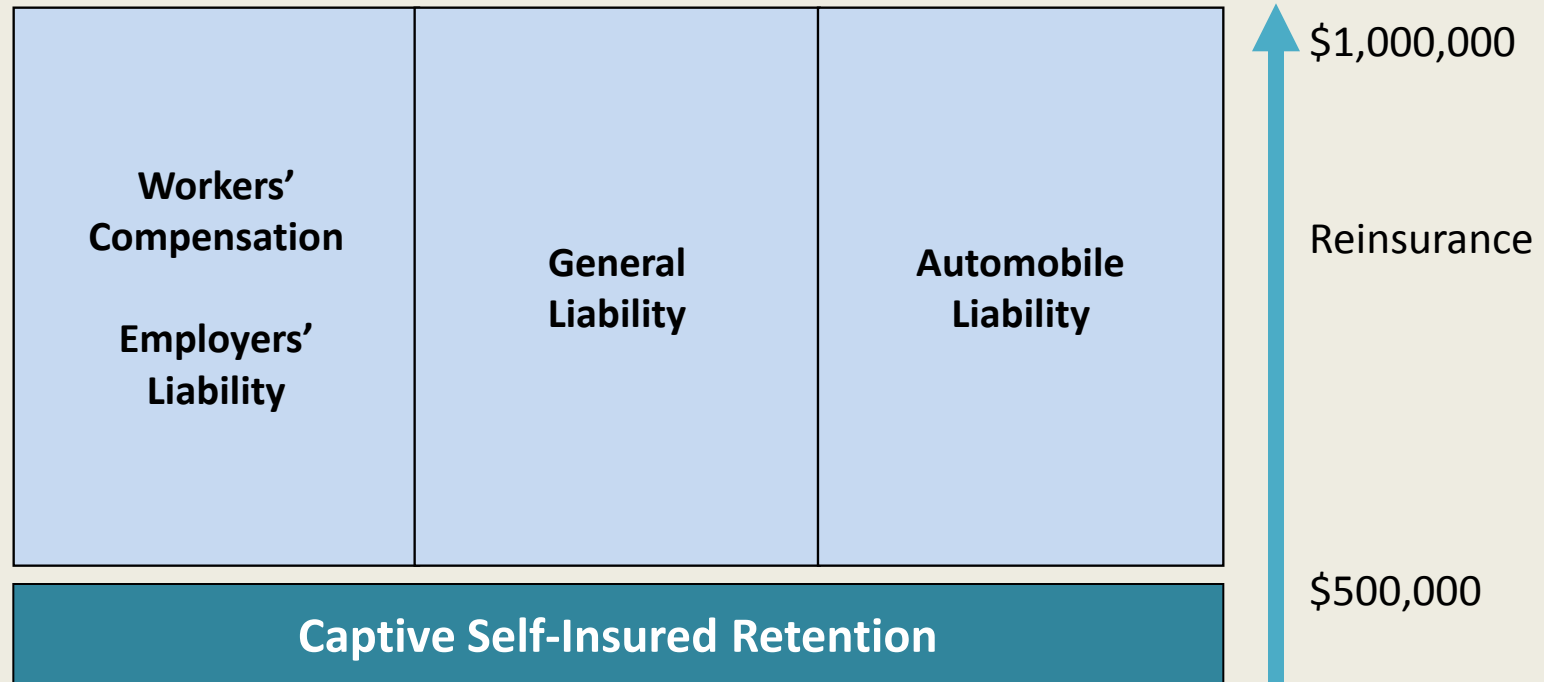


Captive Coverage	Balance of Program
Workers' Compensation Coverage A Statutory Benefits Coverage B Employers' Liability	Crime EPLI D&O
General Liability (including products)	Umbrella
Auto Liability	Property
Auto Physical Damage	Professional Liability

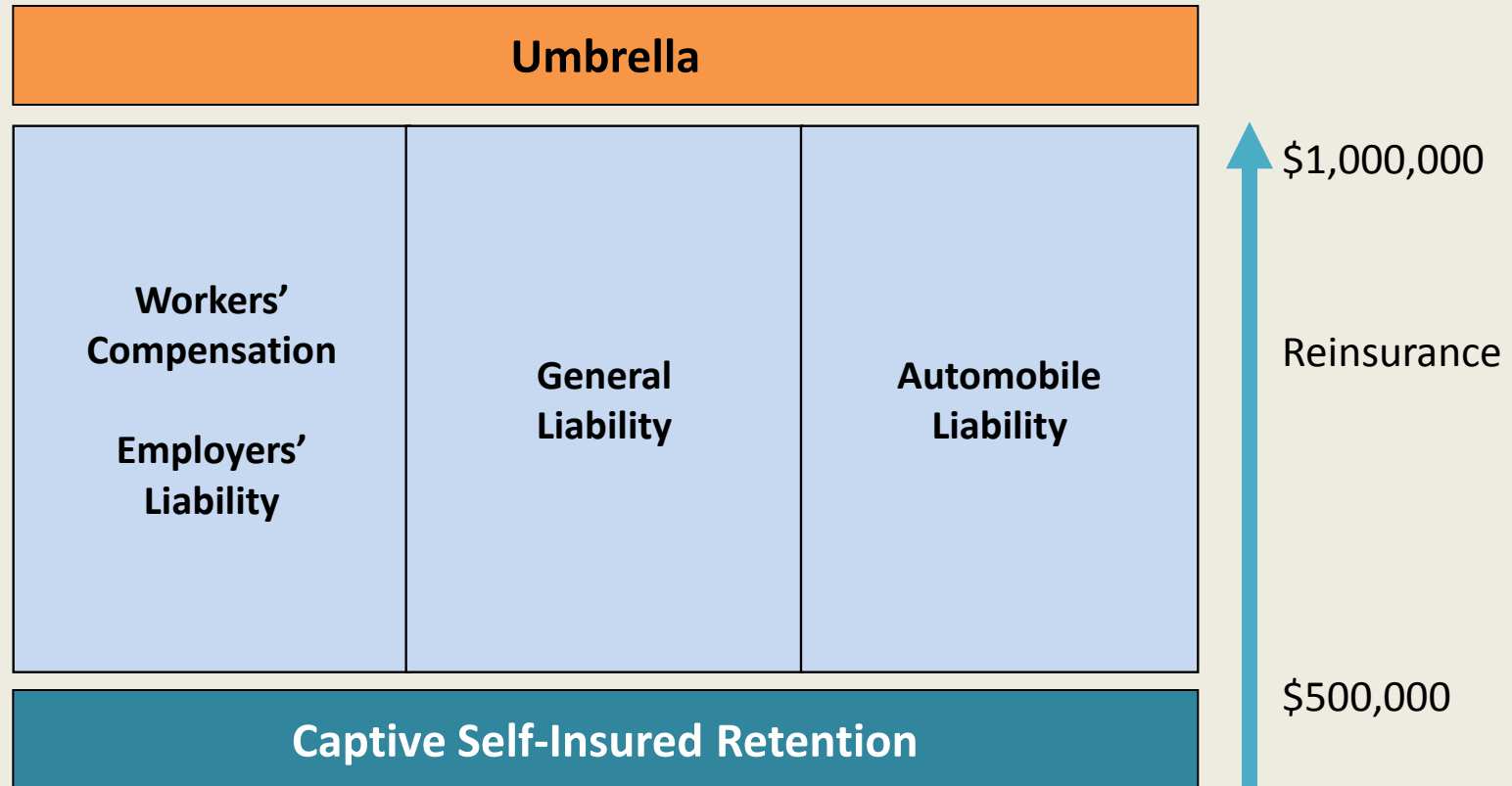
Captive Company Flow



Specific & Aggregate Excess Reinsurance



Umbrella Protection



Program Benefits



Benefits of a Group Captive



Control

- Less risk transfer = More control
- Group chooses service providers
- Become an owner rather than a buyer



Benefits of a Group Captive

Cost

- Premiums based on your own loss history
- Group purchasing power
- Market fluctuations minimized
- Investment income returns to your company
- Return premium distributions to your company



Benefits of a Group Captive



Additional Benefits

- Provides a forum for networking to exchange ideas
- Heightened safety awareness
- Reduces renewal hassles



Risk Control



- Assists in Risk Control Workshops
- Develops the risk evaluation process for prospects and members
- Provides customized risk control consulting services



Claims Administration



- Administers and manages claims in compliance with captive-designed service instructions
- Provides information management services, including real-time online access to claims information
- Quarterly claim reviews
- Claim Advocates on staff



Captive Premium



Why is A Captive Premium Different?



- The premium is based on each participant's own losses, premiums & exposures
- The combined premium purchasing power of all members reduces the fixed costs for all
- Fixed Costs + Loss Funds = Premium



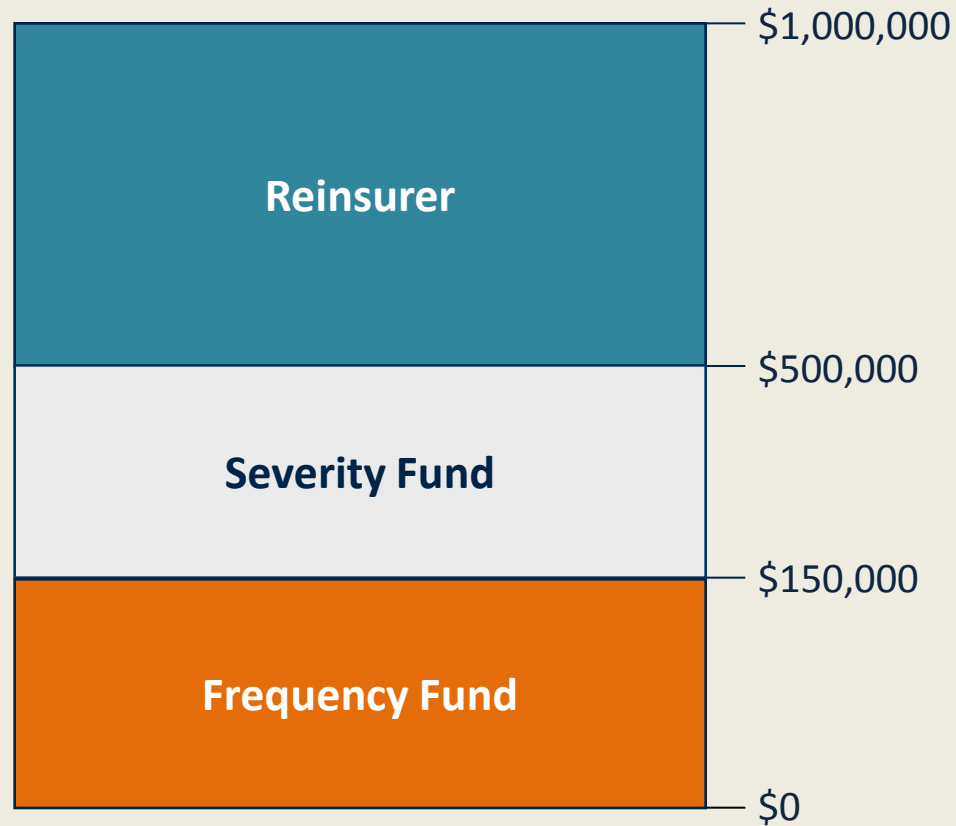
Sample Member



Premium Components:

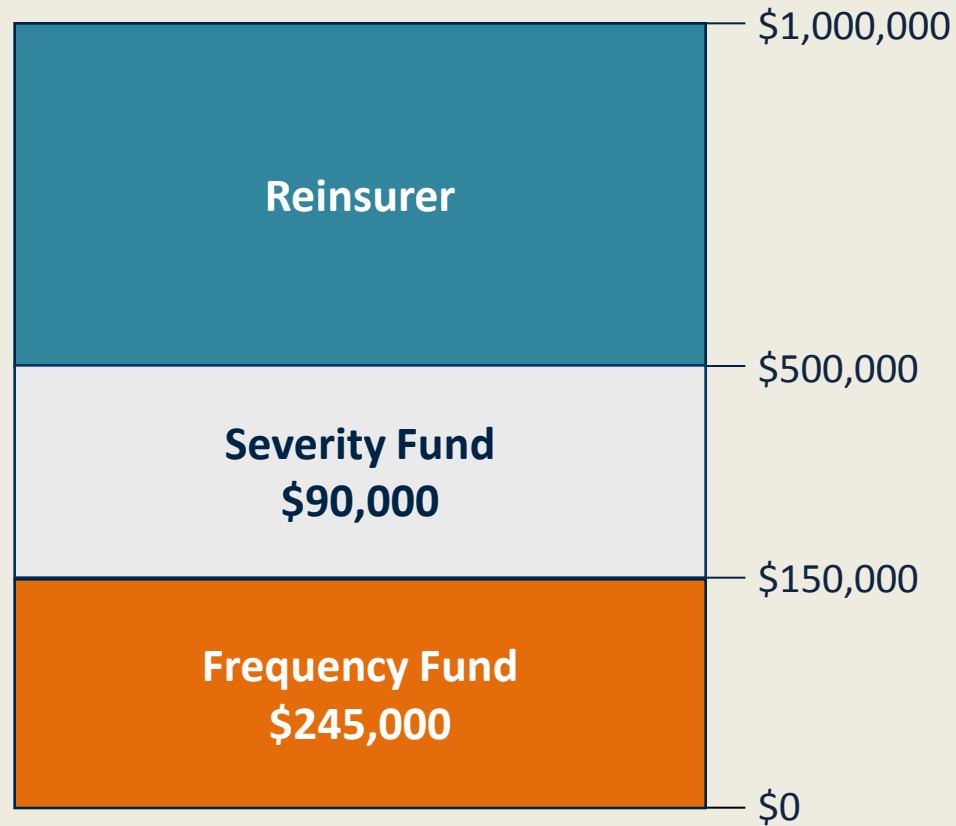
Loss fund	\$335,000
Fixed Costs	\$215,000
<hr/>	
Premium	\$550,000

Funding Structure

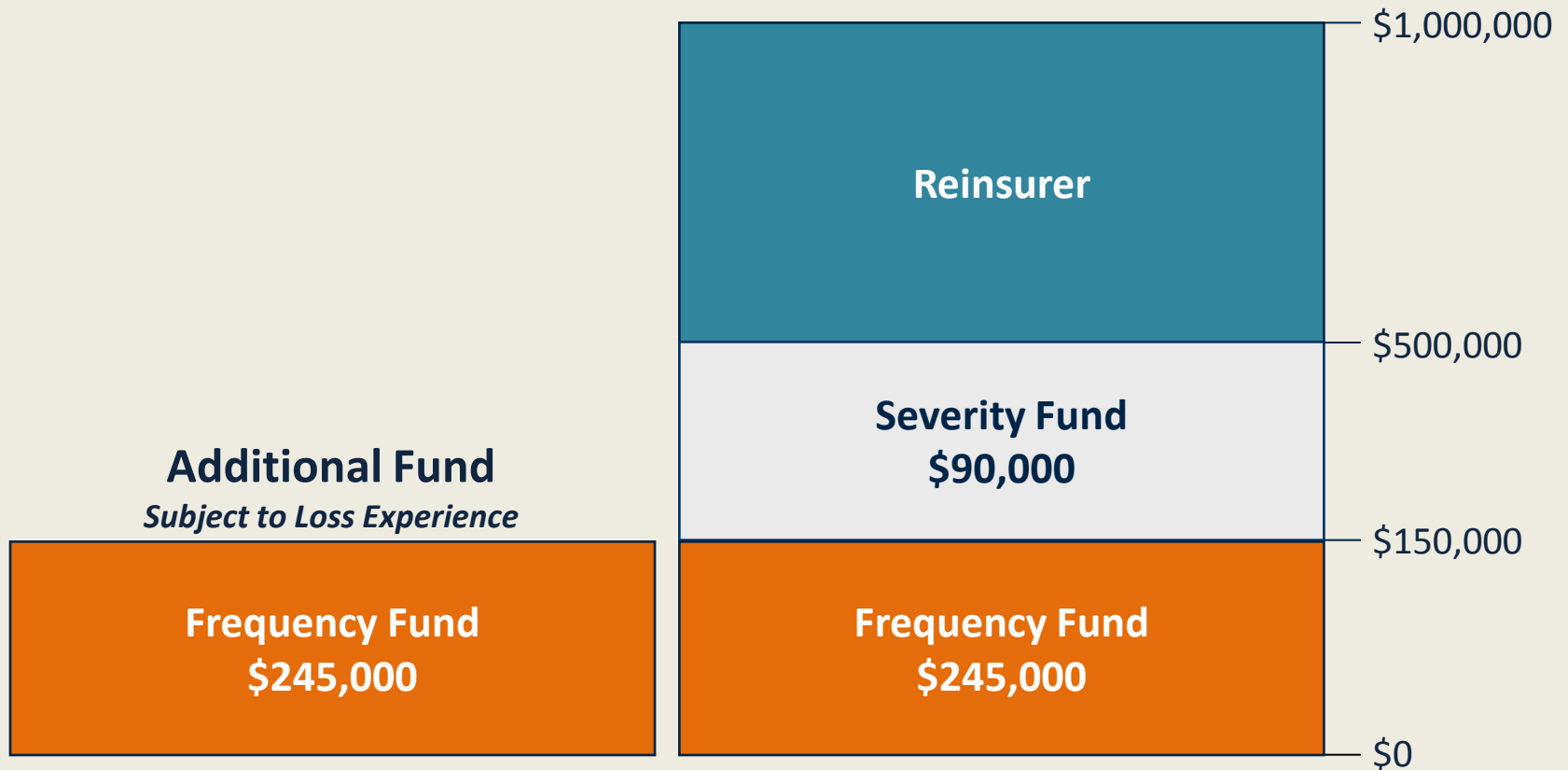


Funding Structure

**Loss Fund =
\$335,000**



Funding Structure



Sample Loss Scenarios



Sample Loss Scenario



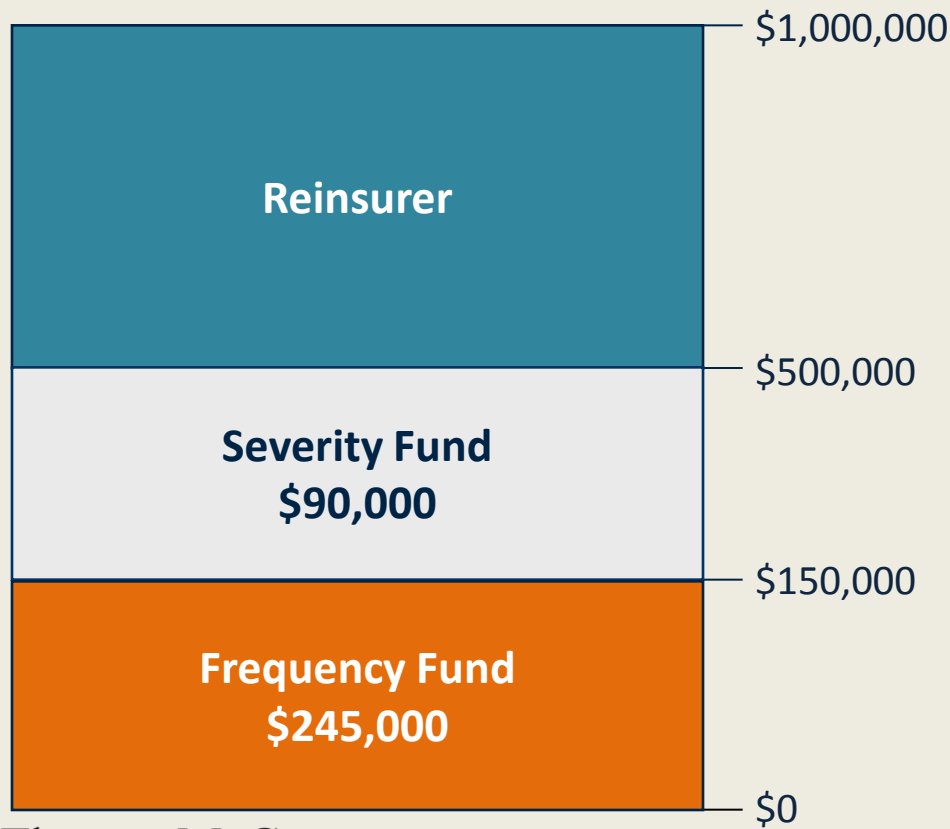
Example One:

What happens if our sample member has a year with very limited losses?

Sample Loss Scenario



\$25,000 of Total Claims – Less than \$150,000



Beginning balance	\$245,000
Total Claims	(25,000)

Remaining Balance	\$220,000
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Sample Loss Scenario



Member Financial Summary

Year 1	Year 2	Year 3	Year 4
+ \$310,000			



- Return premium is held for loss development and incurred but not reported (IBNR) claims until 3 years after the close of the policy period
- Investment income is being earned by the member instead of the traditional carrier at this time
- At that time the members declare a distribution, usually a percentage of the total return premium

Sample Loss Scenario



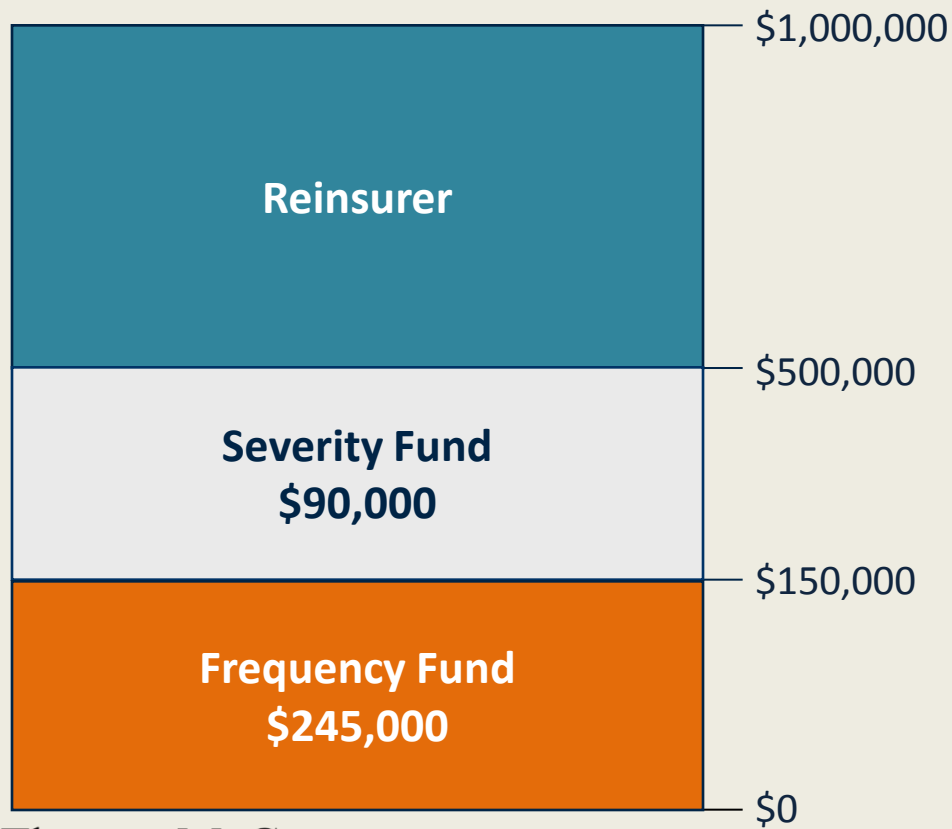
Example Two:

What happens during an average year?

Sample Loss Scenario



\$60,000 of Total Claims – Less than \$150,000



Beginning balance	\$245,000
Total Claims	(60,000)

Remaining Balance	\$185,000
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Sample Loss Scenario



Member Financial Summary

Year 1	Year 2	Year 3	Year 4
+ \$310,000	+ \$275,000		

Sample Loss Scenario



Example Three:

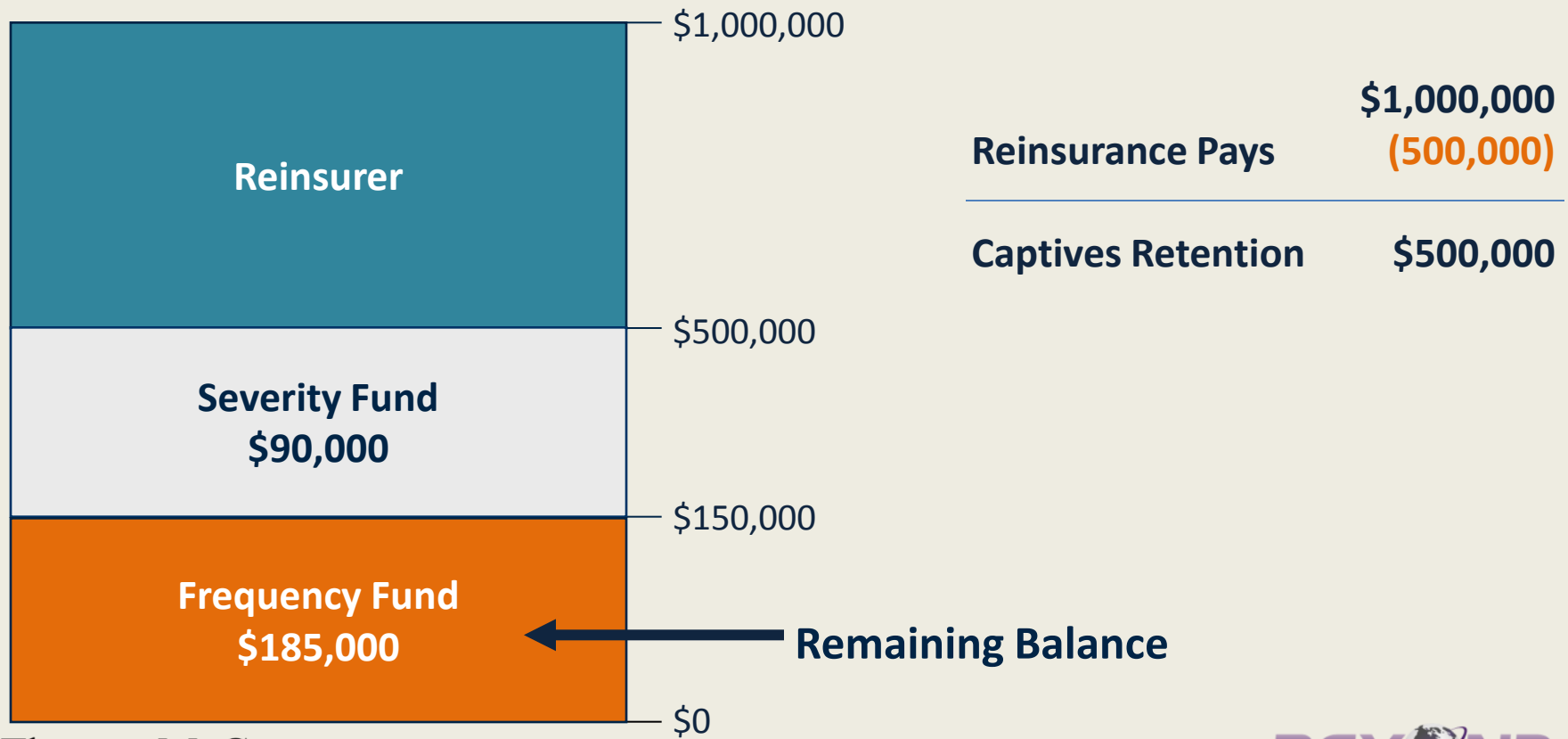
What happens in an average year where there is also a catastrophic loss?



Sample Loss Scenario



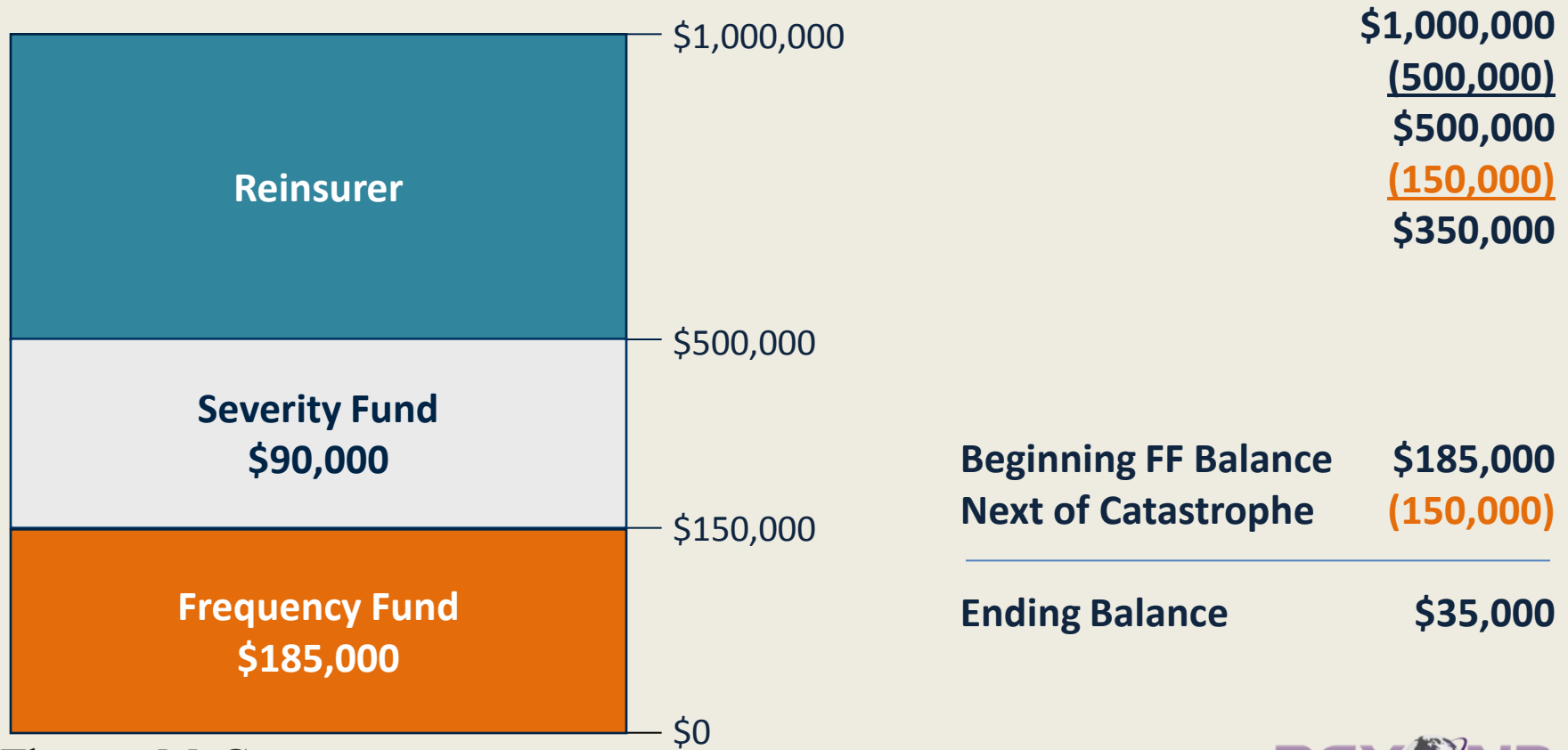
\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim



Sample Loss Scenario



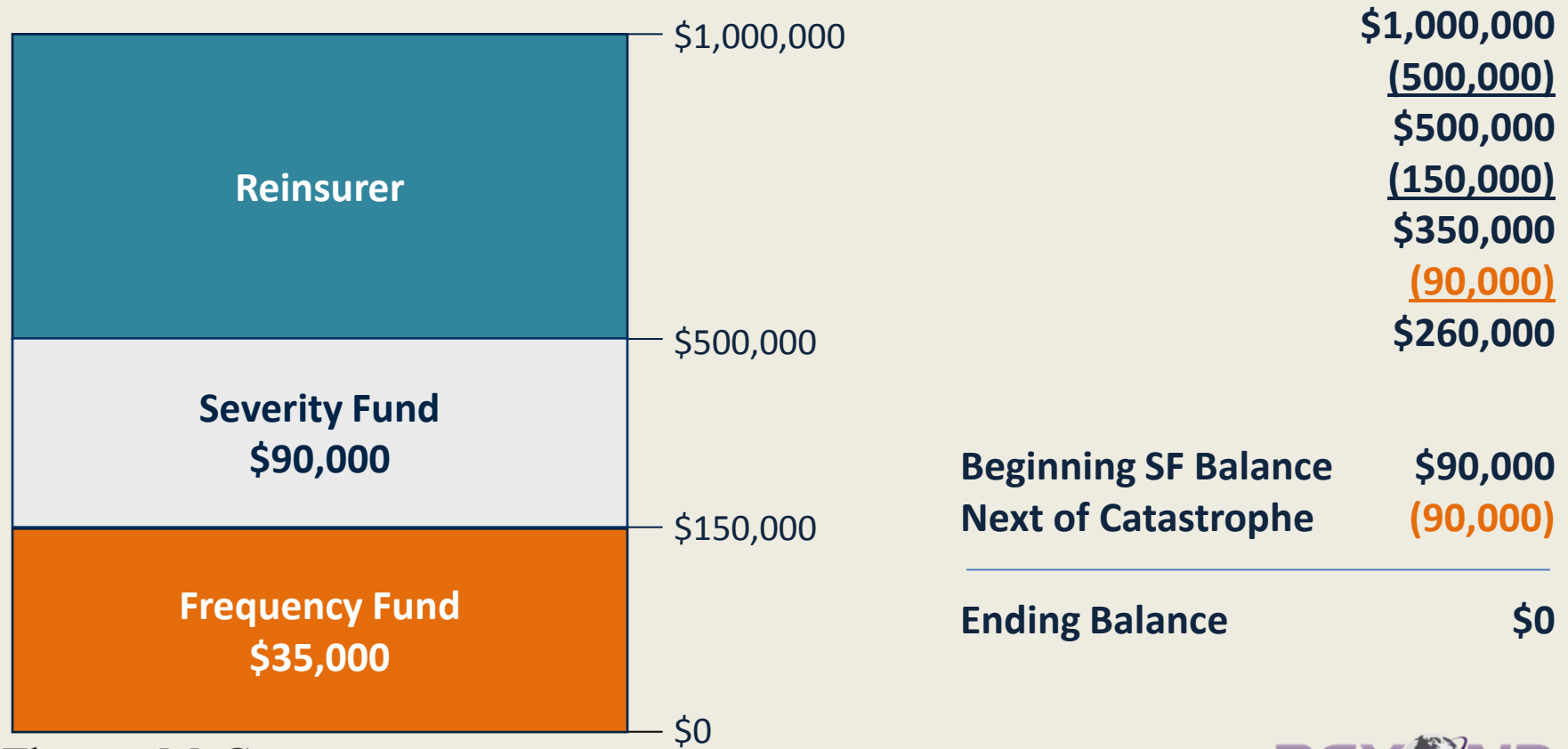
\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim



Sample Loss Scenario



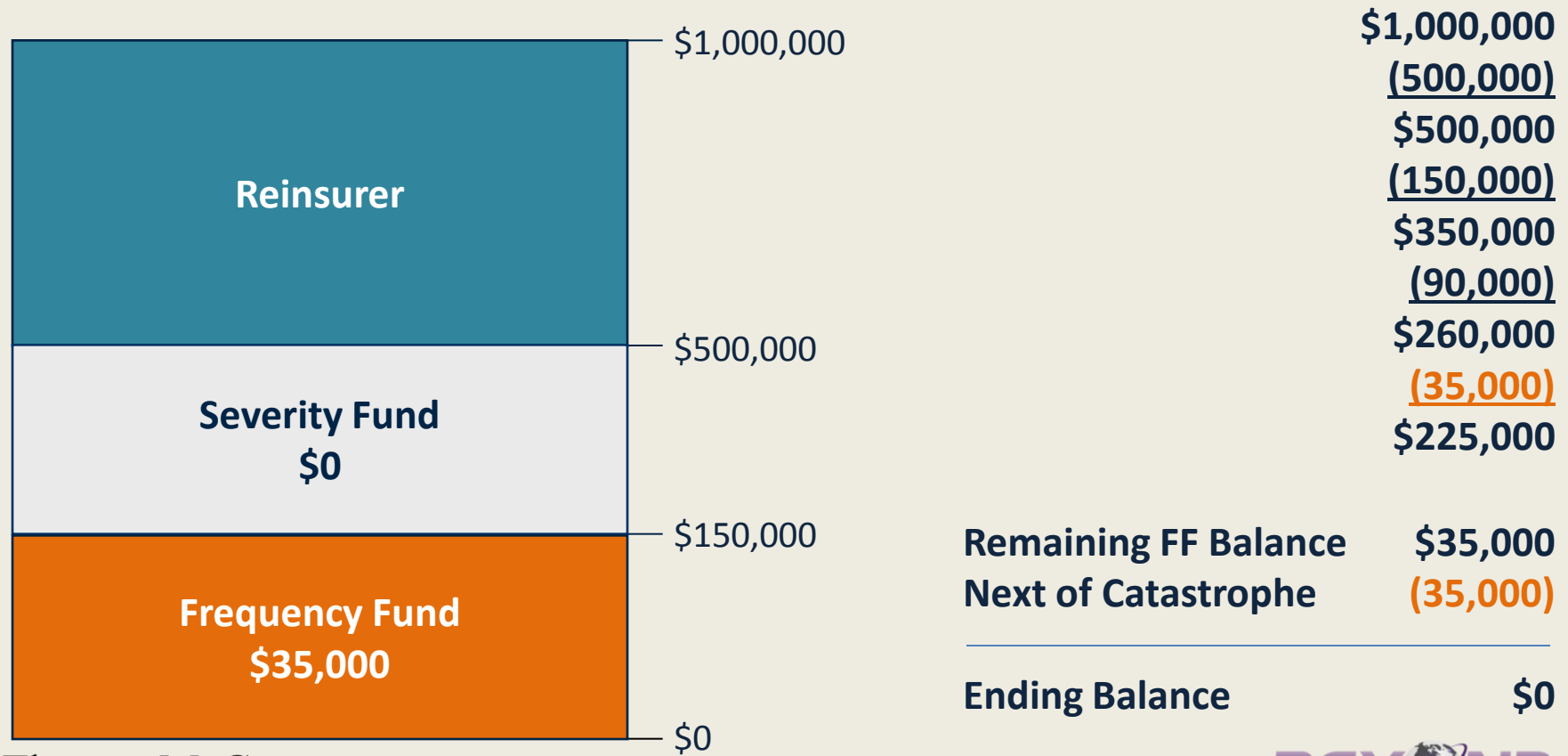
\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim



Sample Loss Scenario

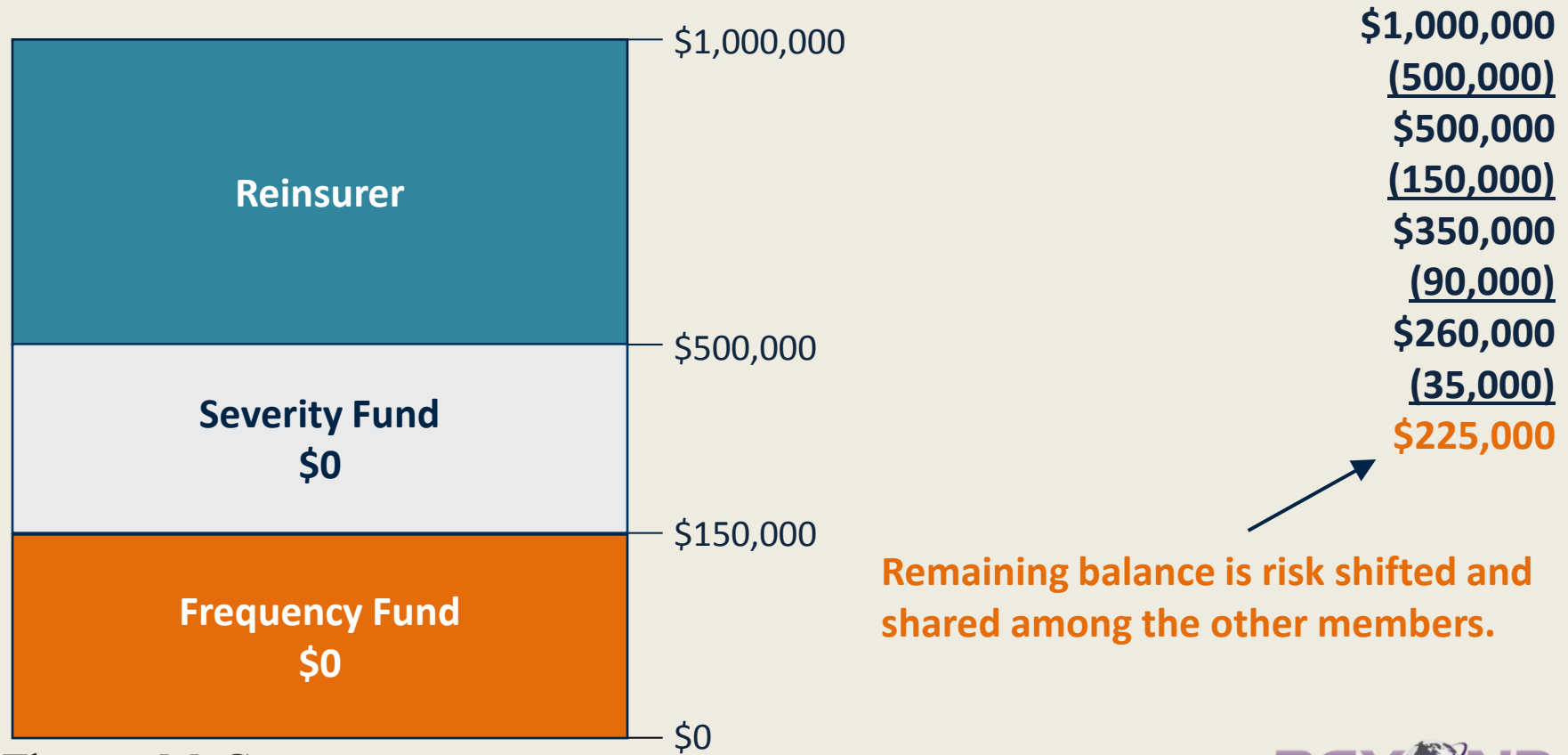


\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim



Sample Loss Scenario

\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim



Sample Loss Scenario



Member Financial Summary

Year 1	Year 2	Year 3	Year 4
+ \$310,000	+ \$275,000	\$0	

Sample Loss Scenario



Example Four:

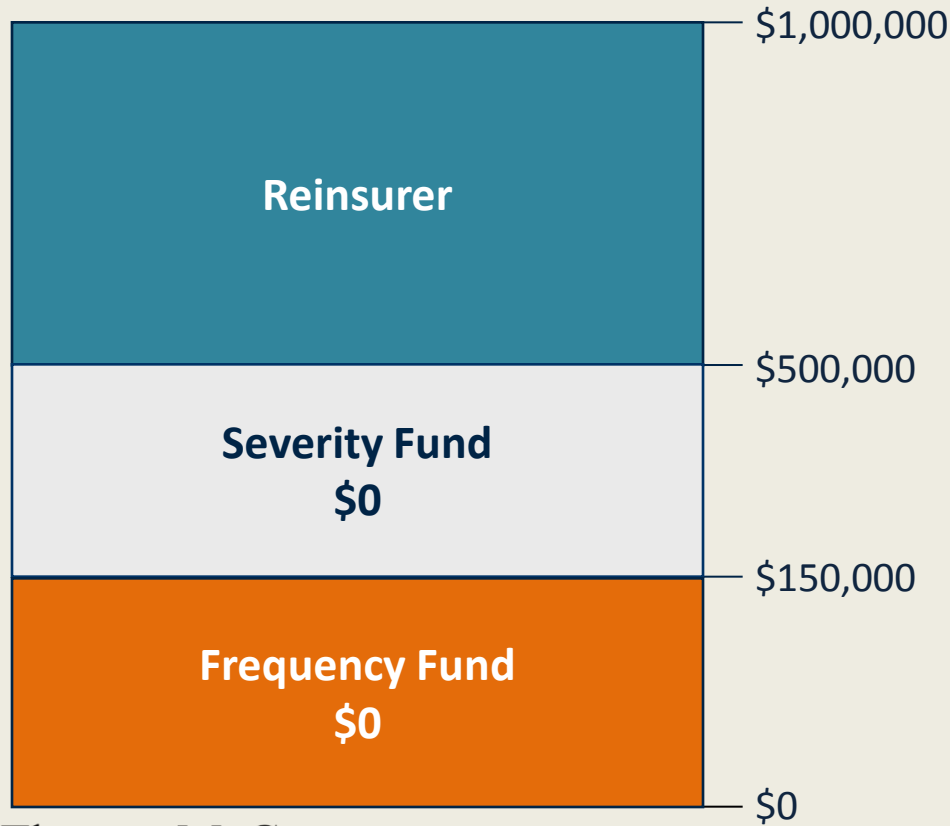
What happens if a member has no balance remaining in funds, but frequency claims continue to occur?



Sample Loss Scenario



\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim and another \$10,000 in Frequency Claims

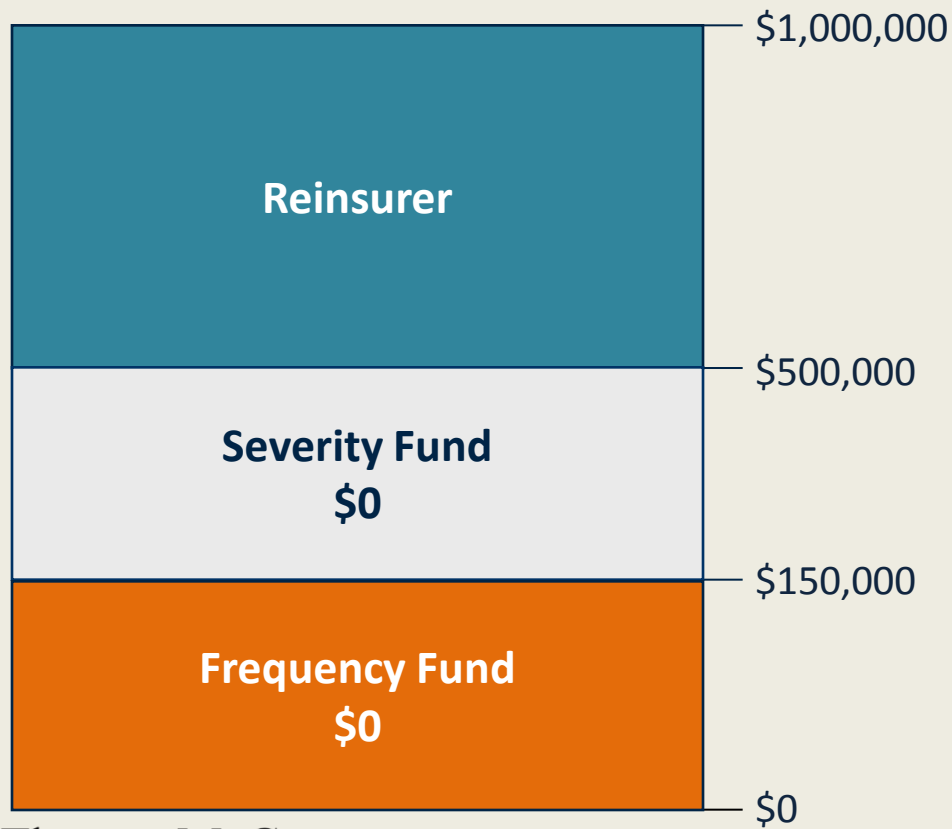


Ending Balance	\$0
Beginning Balance	\$0
Claims	(10,000)

Ending Balance	-\$10,000
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Sample Loss Scenario

\$60,000 of Total Claims – Less than \$150,000 and a \$1,000,000 Catastrophe Claim and another \$10,000 in Frequency Claims



Additional Fund

Subject to Loss Experience



Ending Balance	\$0
Beginning Balance	\$0
Claims	(10,000)

Ending Balance	-\$10,000
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Sample Loss Scenario



Member Financial Summary

Year 1	Year 2	Year 3	Year 4
+ \$310,000	+ \$275,000	\$0	(\$10,000)

Sample Loss Scenario



Payment Schedule When Assessment is \$10,000

Year 1	Year 2	Year 3	Year 4
Frequency Fund exceeded	50% of Assessment is due	30% of Assessment is due	20% of Assessment is due
Frequency Fund contributions by	\$5,000	\$3,000	\$2,000
\$10,000			

All payments are made semi-annually.

Security Requirement



- 2/3 of frequency fund (\$245,000) over a three-year period, not to exceed two times the frequency fund in the current year
- Example assuming frequency fund amount did not change going forward

Year 1	Year 2	Year 3	Year 4
\$163,333	\$326,666	\$490,000	\$490,000

Total Investment



- Maximum Cost
 - Premium + one additional Frequency Fund + Assessments
 - Or 2 Frequency Funds + Severity Fund + Fixed Costs
(\$245,000 + \$245,000 + \$90,000 + \$215,000)
- \$15,000 capitalization, this varies by captive
 - One time investment. Usually refundable upon exit with investment income
- Policy is subject to audit
 - Composite audit factor by line of coverage

Captive Structure



- Members own the program
- Members control the program
- One Member = One Director = One Vote



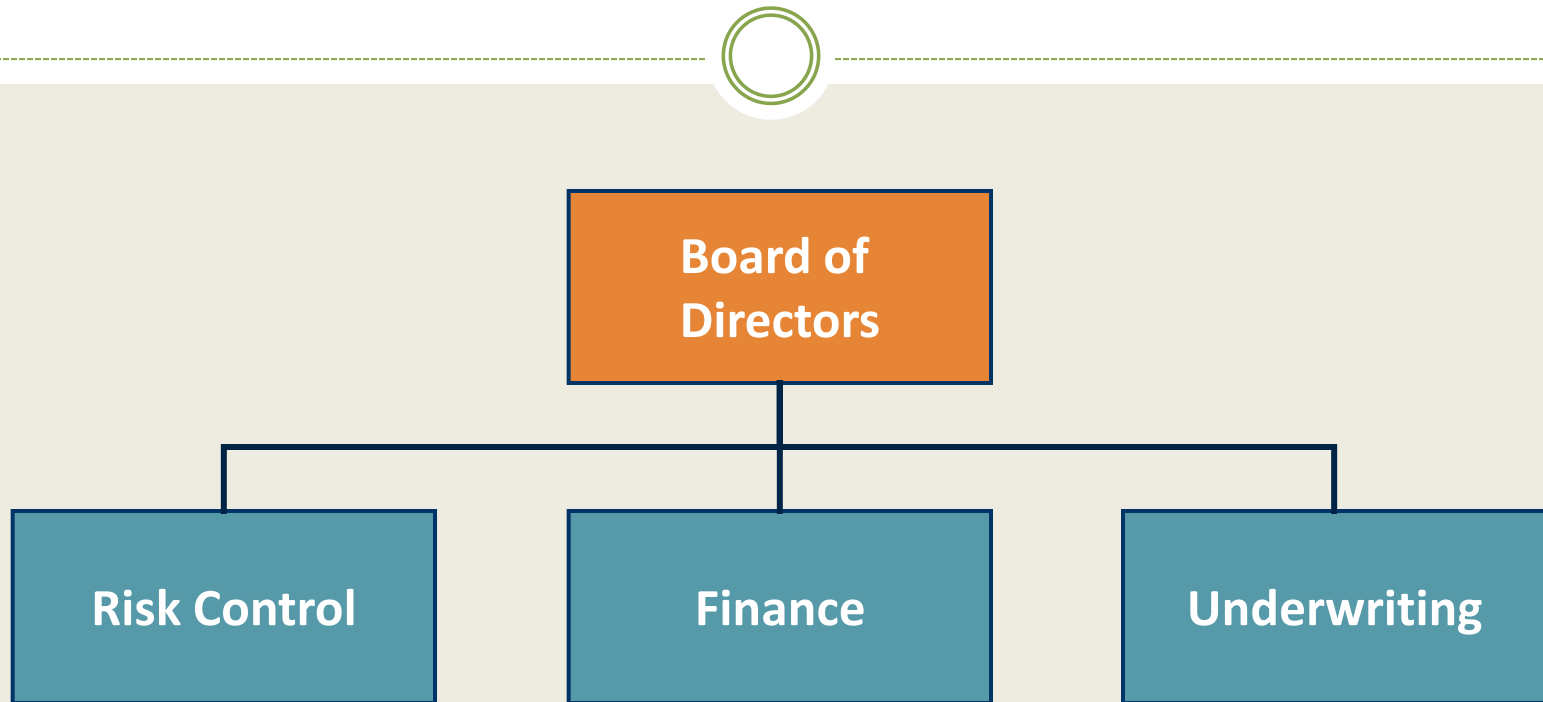
Ownership rights



- Capitalization grants them voting rights ~ \$15,000
- Two Board of Directors meetings a year
- Two Risk Control Workshops a year
- Documents between the client and the captive legally defining how the captive operates



Committee Structure



Captive Manager acts as *your* operating team

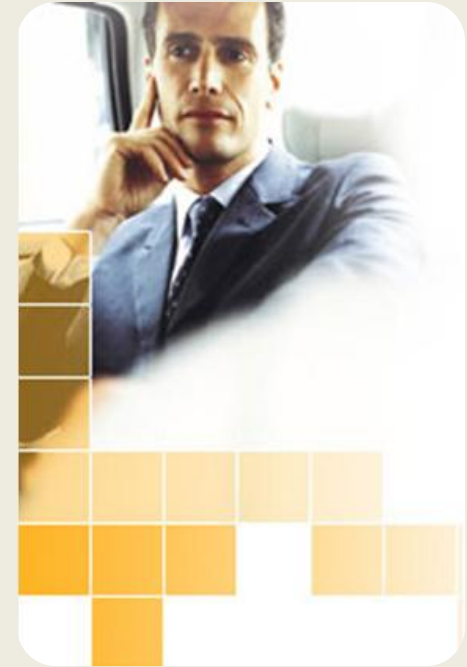
The Captive Process



“Ideal Candidate”



- Mid-sized to large company (paying over \$250,000)
- Financially secure
- Desire to take control, willing to be accountable
- Commitment to risk control and safety improvement



Specialty Trades Insurance Company



Loss Ratios

U/W Year	Total Premium	Total Incurred Losses	Incurred Loss Ratio
2009-10*	\$19,685,756	\$4,660,394	24.00%
2008-09	\$23,766,519	\$8,527,558	36.00%
2007-08	\$24,794,065	\$8,654,345	35.00%
2006-07	\$22,794,916	\$10,922,388	48.00%
2005-06	\$23,735,710	\$8,672,910	37.00%
2004-05	\$24,508,027	\$10,360,460	42.00%
2003-04	\$22,464,199	\$14,423,767	64.00%

****2009-10 Values are Pro-Rated***

Specialty Trades Insurance Company



Policy Holder Distributions!

2002-2003 = \$3,860,033

2003-2004 = \$1,356,863

2004-2005 = \$3,042,146

2005-2006 = \$3,627,041

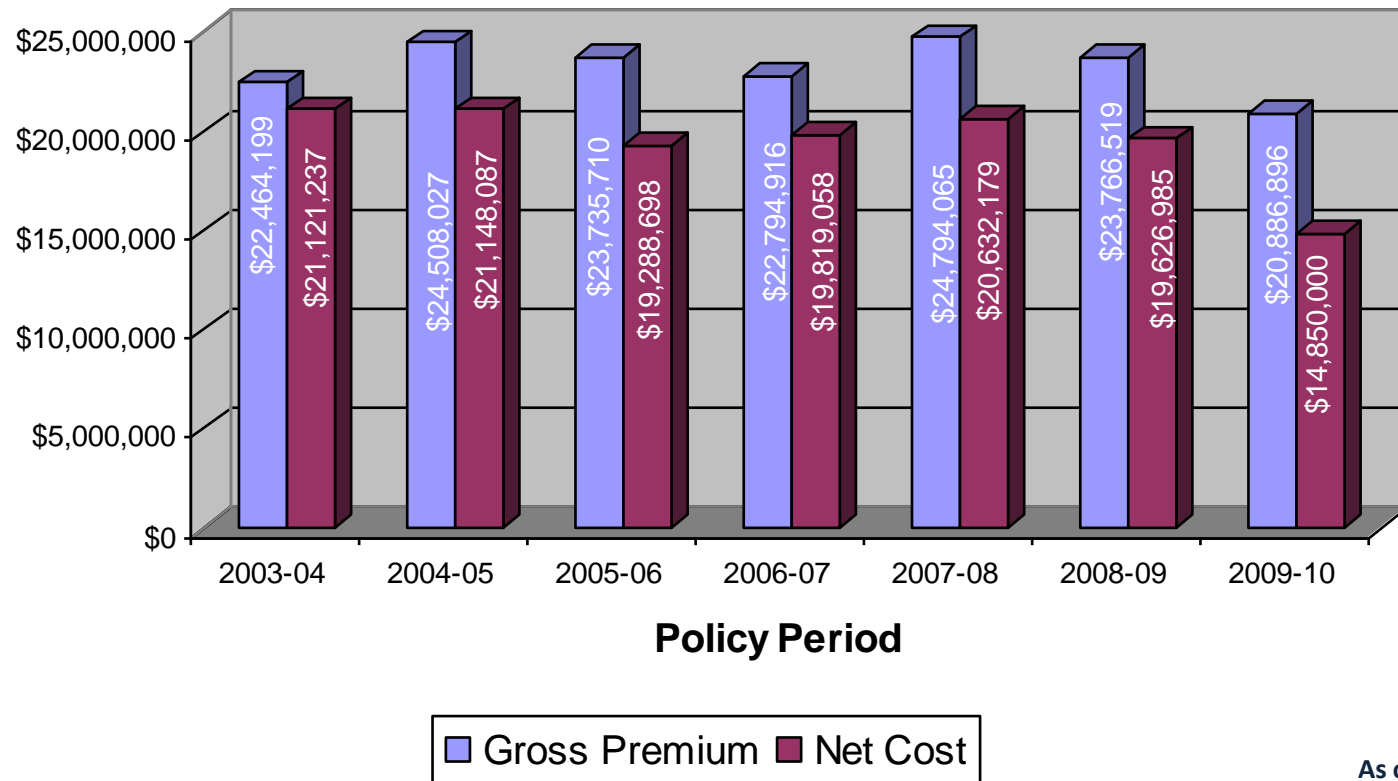
Cumulative Distributions =

\$20,652,002 or 13.5% of Premium!

Specialty Trades Insurance Company



Average Net Cost from 2003-2009 is 15% less than Pay-in Premium



As of 12.31.09

The Proposal Process



- Decision to obtain a final quote
 - Formal underwriting analysis
 - Independent actuarials
 - Pre-risk control evaluations
 - \$1,500 fee: 45-90 days before ex-date



The Proposal Process



- Final Presentation
 - Formal quote in proposal format
 - Approval by underwriting committee
 - \$15,000 capitalization and authorization to bind

Additional Questions?



Thank You.



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